

# Office of the Comptroller of the Currency

## Mission:

To charter national banks, to oversee a nationwide system of banking institutions, and to assure that national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers.

## Total Operating Level

(Dollars in Thousands)

	FY 2005	FY 2006	FY 2007		
	Obligated	Estimate	Estimate	Change	% Change
<b>Budget Activity</b>					
Charter	15,011	18,372	19,190	818	4.5%
Regulate	64,011	72,579	75,887	3,308	4.6%
Supervise	408,091	488,450	510,169	21,719	4.4%
<b>Total Cost of Operations</b>	<b>\$487,113</b>	<b>\$579,401</b>	<b>\$605,246</b>	<b>\$25,845</b>	<b>4.5%</b>
<b>Total FTE Usage</b>	<b>2,686</b>	<b>2,886</b>	<b>2,886</b>	<b>0</b>	<b>0%</b>
Capital Investments (Included in Total Cost of Operations above)	\$10,999	\$6,360	\$5,068	-\$1,292	-20.3%

## Overview

The Office of the Comptroller of the Currency (OCC) charters, regulates and supervises national banks. OCC's mission is critical to the nation's banking system and the U.S. economy. OCC evaluates national banks using the CAMELS (Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity to market risk) rating system and ensures compliance with banking laws, the Bank Secrecy Act, USA PATRIOT Act, and consumer protection laws. Through the large bank, community bank, mid-size bank and credit card bank programs, OCC develops a supervisory strategy for each bank based on its risk profile and condition. The strategy includes on-site examinations and off-site analyses completed during the supervisory cycle.

In FY 2005, OCC:

- Supervised 1,933 bank and 51 federal branches with assets exceeding \$5.8 trillion,
- Completed 1,287 strategy certifications for examination activities,

- Conducted 427 Community Reinvestment Act examinations,
- Conducted 1,530 Bank Secrecy Act/ Anti-Money Laundering/ USA PATRIOT Act examinations,
- Conducted nationwide outreach to more than 24,000 participants regarding Bank Secrecy Act/ Anti-Money Laundering,
- Processed over 2,100 corporate banking applications and notices with 96 percent completed within established time standards, and
- Closed more than 72,000 consumer complaints and inquiries, resulting in the reimbursement of approximately \$6.3 million in disputed fees and other charges.

In FY 2006, OCC will continue to monitor financial sectors and markets. The proliferation of non-traditional home mortgage products, rapid growth of home equity lines of credit, and the acceleration of home prices require close attention. A sudden and sustained rise in interest rates, or drop in housing prices, could present potential vulnerabilities to real estate-related portfolios, as well as other consumer-

lending portfolios. OCC will continue to focus on the Bank Secrecy Act and anti-money laundering regulations, as well as monitor issues related to privacy, predatory lending, and fairness in home mortgage lending practices. OCC will work to ensure that banks that rely on models to measure risk and determine minimum regulatory capital develop and implement effective control mechanisms and validation practices to govern the proper use of such models. This work will be done in accordance with any revisions to the Basel Capital Accord. OCC will work with its federal counterparts to monitor the long-term economic impact of Hurricane Katrina and take appropriate bank supervisory actions. Filling key examiner positions in the Large Bank Supervision program and the continued recruitment of entry-level examiners are also critical FY 2006 initiatives for the OCC.

In FY 2006, an estimated \$579.4 million is needed to fund ongoing OCC operations and address program priorities effectively. OCC's operations are funded primarily (97 percent) by semiannual assessments levied on national banks. Interest from investments in U.S. Treasury securities and licensing and other fees combine for the remaining three percent of revenue. OCC does not receive a Congressional appropriation.

## Performance Highlights

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OCC met or exceeded all of its performance measures for FY 2005. As a whole, the national banking system is healthy and in compliance with consumer protection laws and other regulations. At the end of FY 2005, 99 percent of national banks were classified as well capitalized. National banks' capital has remained at this consistently high level for the past several years.

In FY 2005, 94 percent of national banks earned a composite CAMELS rating of either 1 or 2, indicating an overall safe and sound national banking system and a foundation for a strong U.S. economy. Forty-four percent of problem banks with composite

CAMELS rating of three, four or five one year ago improved their ratings to either one or two this year. There has been continuous improvement by problem banks over the last three years, 40 percent improved their ratings in FY 2004 and 32 percent in FY 2003.

National banks continue to show strong compliance with consumer protection regulations as well, with 94 percent earning the highest consumer compliance rating of either one or two.

OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks to complete corporate transactions and introduce new financial products and services. Delayed decisions can deprive a bank of a competitive or business opportunity, create business uncertainties, or diminish financial results. OCC completed 96 percent of applications and notices within the time standard, and received an overall customer satisfaction rating of 1.19 on a five-point scale (1 is the highest rating).

In FY 2006, OCC will work with national banks to ensure risks are well managed so these high levels of performance can be maintained.

In addition, OCC will continue to focus on efficient operations. In this regard, OCC will evaluate overall efficiency of the agency by monitoring costs relative to every \$100,000 in bank assets regulated. OCC evaluates its programs and where appropriate, reengineers processes to achieve greater efficiencies. Lean Six Sigma principles (using statistical tools and analytical methods to focus an organization on reducing cost by eliminating defects and non-value added activities within its work flows) are followed to achieve increased efficiency and effectiveness of management support programs within the agency.

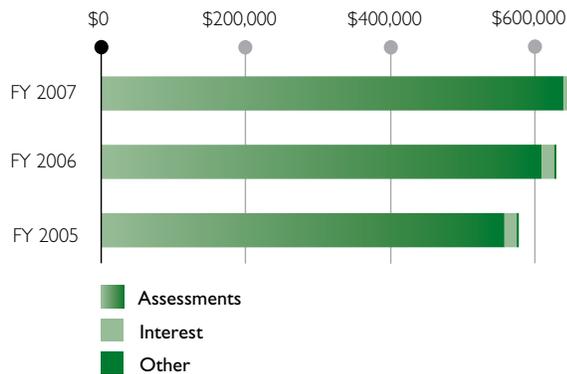
## OCC Performance by Budget Activity

Budget Activity	Performance Measure	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
		Actual	Actual	Actual	Target	Target	
Supervise	Percentage of national banks that are well-capitalized (%) (Oe)	99	99	99	✓	95	95
	Percentage of national banks with composite CAMELS rating 1 or 2 (%) (Oe)	94	94	94	✓	90	90
	Rehabilitated problem national banks as a percentage of the problem national banks one year ago (CAMELS 3, 4 or 5) (%) (Oe)	32	40	44	✓	40	40
	Percentage of national banks with consumer compliance rating of 1 or 2 (%) (Oe)	96%	96	94	✓	94	94
Charter	Percentage of licensing applications and notices completed within established timeframes. (%) (Oe)	97	96	96	✓	95	95
Bureauwide	Total OCC costs relative to every \$100,000 in bank assets regulated (\$) (E)	n/a	n/a	n/a	n/a	Baseline	\$9.45

(E) = Efficiency Measure (Oe) = Outcome Measure (Ot) = Output Measure

## OCC Revenue

(Dollars in Thousands)



## Program Description

**Charter (\$18,372,000/87FTE)** The Charter program reviews and approves new national bank charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations and subordinated debt issues.

**Regulate (\$72,579,000/332FTE)** Through issuance and interpretation of regulations and policies, OCC establishes system-wide standards, defines

acceptable banking practices, provides guidance on risks and responsibilities facing national banks and prohibits (or restricts) banking practices deemed to be imprudent or unsafe. This program includes the establishment of examination policies, handbooks, and interpretations for examiners as well as representing OCC's regulatory authorities and interpretations in administrative, judicial, and congressional hearings, and provides analysis and legal opinions on federal preemption of state law.

**Supervise (\$488,450,000/2,467FTE)** OCC assures that banks are operating in a safe manner, in compliance with applicable regulations, through bank examinations and enforcement activities, resolution of disputes through the National Bank Appeals process, and ongoing monitoring of banks. OCC also analyzes systemic risk and market trends in the national banking system or groups of national banks, the financial services industry, and the economic and regulatory environment.

## Capital Investments Summary

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*Capital (\$5,547,000)* Two major IT investments are planned for FY 2006: the Supervisory Information System (SIS) and the Licensing Information System (LIS). These investments will improve overall program effectiveness, reduce costs and improve efficiency of OCC's work processes.

SIS is a multi-year project for the Large Bank Supervision and Mid-size/Community Bank Supervision programs that provides examiners with more efficient, risk-based supervision tools and improves documentation of ongoing supervision of complex and diverse institutions. SIS will support material enhancements of large and mid-size/community bank supervision by providing greater consistency of supervision work, improving horizontal reviews and benchmarking, and providing better management level views of workflow and examination results.

LIS will provide for comprehensive electronic data capture from the corporate licensing process, eliminating manual data entry and replacing an antiquated mainframe data retrieval system. LIS is integral to OCC's overall information technology strategy for replacing the mainframe computer system.

OCC also will continue to fund maintenance costs of its financial management system, the Management and Accountability Report Tools (\$SMART). There are no planned capital expenditures for this system.